

**PERLA COMPAÑIA DE SEGUROS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**1. Corporate Information**

Perla Compañia De Seguros, Inc. was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1963. An extension of corporate life for another 50 years was approved by SEC on October 17, 2011. Its primary purpose is to engage in the business and operation of all kinds of insurance at sea, on land, of properties, goods and merchandise, and all forms of transportation and conveyance against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company's registered and head office address is located on the 2<sup>nd</sup> Floor, Perla Compañia de Seguros Mansion, 117 Carlos Palanca, Jr. Street, Legaspi Village, Makati City. Its operation is complemented by 16 branches located at major cities across the country.

The financial statements of the Company for the year ended December 31, 2022 and 2021 were authorized for issue by the Board of Directors on April 4, 2023.

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**2. Statement of Compliance and Basis of Preparation and Presentation**

*Statement of Compliance*

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council. It also includes pronouncement issued by SEC.

*Basis of Financial Statement Preparation and Presentation*

The accompanying financial statements have been prepared on a historical cost basis except for following which are carried at fair values:

- Fair value through profit or loss
- Available for sale financial assets
- Land and building included under property and equipment
- Condominium unit included under investment property

The financial statements are presented in Philippine Peso and all values represent absolute amount except as otherwise indicated.

The preparation of the financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The Company's significant accounting judgments and estimates are discussed in Note 5.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 30.

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**3. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus non-current classification

The Company presents assets and liabilities in the statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading; ·
- Expected to be realized within twelve months after the end of the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

The Company classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the end of the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the end of the reporting period.

The Company classifies all other liabilities as non-current.

Financial Instruments

Date of Recognition

Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

Initial Recognition

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of these financial instruments includes transaction costs.

Determination of Fair Value

The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instruments

The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management

determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

- **Financial Assets and Financial Liabilities at FVPL**  
 Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. After initial recognition, financial assets and financial liabilities at FVPL are carried at fair value.

Financial asset and financial liability are classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is part of an identified portfolio of financial instruments that the Company manages together and has recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
- The financial asset forms part of a group of financial assets that is managed and its performance is evaluated on a fair value basis.
- It forms part of a contract containing one or more embedded derivatives.

As of December 31, 2022 and 2021, financial assets under this category amounted to P13,726,422 and P16,134,770, respectively.

- **Available-for-Sale (AFS)**  
 AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS assets are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Revaluation reserve on AFS financial assets*". Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

As of December 31, 2022 and 2021, financial assets under this category amounted to P342,824,601 and P386,571,131, respectively.

- **Loans and Receivables**  
 Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

Included under this category are the company's cash and cash equivalents, short-term investments, insurance balances receivable, reinsurance asset, accrued investment income, advances to employees, deposits and security fund.

- **Held-to-Maturity (HTM)**  
 HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and

fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in statements of income.

As of December 31, 2022 and 2021, financial assets under this category amounted to P770,174,252 and P663,891,554, respectively.

- **Other Financial Liabilities**

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

Included under this category are insurance claims payable, reinsurance liabilities and accounts payable and accrued expenses.

*Reclassification of Financial Assets*

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- (i) the financial asset is no longer held for the purpose of selling or repurchasing it the near future; and,
- (ii) there is a rare situation

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

*Impairment of Financial Assets*

The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

- (i) *Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(ii) *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

*Derecognition of Financial Instruments*

*Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party.
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Accounting Policies for Insurance and Reinsurance Contracts*

*Insurance Contract*

Insurance contract is an agreement under which one party (the insurer), accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured events) adversely affects the policyholder.

*Contract Classification*

The Company issues short-term insurance contracts categorized as (i) Casualty, (ii) Property, (iii) Guaranty and (iv) Short - duration life accident insurance.

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both

contractual and non-contractual events. Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

*Insurance Balances Receivables*

These include amounts due to and from agents, brokers and insurance contract holders which comprise the balance of uncollected policy premiums and reinsurance premiums from reinsurers arising from reinsurance contracts measured at amortized cost, using the effective interest method.

*Reinsurance*

The Company assumes and cedes (Treaty and Facultative) insurance risk in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered as direct business, taking into account the product classification of the reinsured business.

Amounts recoverable from reinsurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

Reinsurance commission are deferred and deducted from the applicable deferred acquisition cost, subject to the same amortization method of the related acquisition cost.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive the amounts due to it under the terms of the contract and that it can be measured reliably

Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expired.

*Deferred Acquisition Costs*

Commissions and other expenses directly attributable to the production and renewal of insurance contracts are deferred in proportion to premium revenue recognized. Deferred acquisition costs are amortized over the life of the policy in which it was incurred.

Deferred acquisition costs are reviewed at each reporting date and the carrying value is written down to the recoverable amount.

*Reserve for Unearned Premiums and Reinsurance Premiums*

Reserve for unearned premiums is calculated on the following basis:

- (i) Reserves for unearned premium are calculated using the 24<sup>th</sup> method based on gross premiums written. Under the 24<sup>th</sup> method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.
- (ii) Reserve for unearned premiums on inward treaties is taken up based on the dates the statement is received.

Reserve for reinsurance premium represents the portion of reinsurance premiums ceded computed in the same manner as the reserve for unearned premiums.

The changes in reserve for unearned premiums and reinsurance premiums are reported in the statements of income.

*Claim Cost Recognition*

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim cost resulting from continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs.

Estimates of salvage recoveries are included as a reduction in the measurement of the insurance liability for claims, and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as deduction in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

*Options and Guarantees*

Options and guarantees within insurance are treated as derivative financial instruments which are closely related to the host insurance contracts and are therefore not separated subsequently.

*Investment Properties*

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both and that is not occupied by the company. Investment properties are initially measured at cost, including transaction costs.

After initial recognition, investment property is carried on October 4, 2017 at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The Company reviews these valuations annually.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn or sold and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Property and Equipment

Property and equipment are initially recognized at cost including the costs to get the property ready for its intended use. Subsequent to initial recognition, property and equipment, except land and building are carried at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

Building & condominium units	50 years
Furniture, fixtures and office equipment	5-10 years
Transportation equipment	5 years

Land and condominium unit are carried at revalued amounts. Any revaluation increase arising on the revaluation of such property and equipment is recognized in other comprehensive income and is credited to "Revaluation reserve on Land and Building – net of tax". Upon disposal, any revaluation increment relating to land being sold is transferred to retained earnings. Revaluation increment on building is absorbed to retained earnings through depreciation of the condominium unit.

An asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the period, residual value and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Expenditures for additions, major improvements and renewals are capitalized while minor repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the statement of comprehensive income for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

Impairment of Non-financial Assets

The Company's investment properties and property and equipment are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exists and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Insurance Claims Payable

Liabilities for claims is calculated as the sum of Outstanding claims reserve, Claims handling expense, and Incurred but not reported claims (IBNR), with Margin for Adverse Deviation (MfAD). At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of liabilities for claims. In performing the test for premium liabilities, the Unearned Risk Reserve (URR) is compared to the Unearned Premium Reserve (UPR). If the URR is greater than the UPR, the excess is set up as an additional premium liability on top of the UPR.



In calculating IBNR, the following primary reserving methodologies were applied in the valuation process

- Chain ladder or Loss Development Triangles Method
- Bornhuetter-Ferguson method.
- Expected Loss Ratio Method

The Actuary determines the appropriateness of the methodology considering the characteristics of the data available. The Actuary also assesses the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios. In valuing the claims liabilities, the Actuary also considers other factors such as, but not limited to, varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program, changes in claims handling process, and external conditions.

To ensure sufficiency of reserves, the Actuary conducts a back-testing exercise by comparing actual and expected experience based on previous valuations. Claim liabilities also include MfAD to allow for inherent uncertainty of the best estimate.

#### Premium Reserves

Premium reserves refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the UPR and URR at a designated level of confidence, on both gross and net of reinsurance basis.

UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date, and is recognized as revenue over the period of the policy using the 24th method. URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs. In estimating URR, the Company adopted the loss ratio approach by multiplying the UPR with loss ratios adjusted by taking into account all potential future payments including but not limited to future claims payments, retrocession costs, unallocated loss adjustment expense and ongoing policy administration costs arising from the unearned portion of premium collected. A computation is performed to determine whether the URR required is greater or less than the UPR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

#### Accounts Payable and Accrued Expenses

Accounts payables are liabilities for supplies or services that have been received or provided and have been invoiced or formally agreed with the supplier. Accounts payables are non-interest bearing and are stated at their original invoice amount since the effect of discounting is immaterial.

Accruals are liabilities for goods or services that have been received or provided but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees.

#### Equity

Share capital is determined at par value of shares that have been issued.

Contributed surplus represent additional contribution of stockholders to the Company in compliance with the requirement of the Insurance Commission.

Retained earnings include all current and prior period results of operations as disclosed in the Statements of Income.

Revaluation reserve comprises changes in fair value due to revaluation of AFS, land and building, net of deferred income tax.

In accordance with Section 195 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

- The entire paid-up capital stock;
- The margin of solvency required;
- The legal reserve fund required; and
- A sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

#### Revenue Recognition

Revenue is recognized only when the Company satisfies a performance obligation by transferring control of the promised services to the customer. Revenue is measured at the transaction price which the entity expects to be entitled in exchange for a good or service. The following specific revenue recognition criteria must also be met before revenue is recognized.

#### Premiums

Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24<sup>th</sup> method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting periods are accounted for as "Reserve for Unearned Premiums" and presented in the liability section of the statement of financial position. The reinsurance premiums ceded that pertains to the unexpired period as at reporting dates are accounted for as "Reserve for reinsurance premium" and lodge under "Reinsurance assets" account in the statements of financial position. The net changes in these accounts between reporting dates are credited or charged against income for the year.

#### Commission

Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as "Deferred commission income" in the liabilities section of the statement of financial position.

#### Interest Income

Interest income from bank deposits, special savings account and held-to-maturity investment is recognized as interest accrues taking into account the effective yield on the related asset.

#### Dividend Income

Dividend income is recognized when the right to receive dividends is established.

#### Rental Income

Rental income is recognized on a straight-line basis over the term of the lease.

#### Realized Gains and Losses

Realized gains and losses on the sale of property and equipment are calculated as the difference between net sales proceeds and the net book value. Realized gains and losses on the sale of AFS financial assets are calculated as the difference between net sales proceeds and the original cost net of accumulated impairment losses. Realized gains and losses are recognized in profit or loss when the sale transaction occurred.

#### Cost and Expense Recognition

##### Claims

Claims and claims adjustments expenses relating to insurance contracts are accrued when insured events occur.

Claims expenses (including those incurred but not reported) are based on the estimated ultimate cost of settling these claims. The method of determining such estimates and

establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

Share in recoveries of claim are evaluated in terms of the estimated realizable values of the salvage or recoveries. Recoveries on settled claims are recognized in profit or loss in the period the recoveries are determined. Recoveries on the unsettled claims are recorded as reinsurance recoverable on losses shown as part of reinsurance assets.

#### *Acquisition Cost*

Cost that vary with and primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting, and policy issue cost and inspection fees are deferred and charged to expense in proportion to the premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition cost.

#### *Reinsurance Commission*

Commissions paid to cedants are deferred and are included in deferred acquisition cost, subject to the same amortization method.

#### *Expense Recognition*

Expenses are decreases in economic benefits in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

#### *Claims and Losses*

Gross benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are included in the net earned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

#### *Commission Expense*

Commissions incurred from insurance contracts are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as 'Deferred acquisition costs' and presented in the asset section of the statement of financial position.

#### *Other Expenses*

Other underwriting expenses, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in PFRS 16.

#### *As a Lessee*

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payment that depends on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company used a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Company:

- Did not recognized right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

#### *Short-term Leases and Leases of Low-value Assets*

The Company has elected not to recognize right-of-use assets and lease liabilities for the leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

*As a Lessor*

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease is a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Leases where the Company does not transfer substantially all of the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Income Taxes

Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of the reporting period.

Deferred tax assets and liabilities are recognized using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax liabilities are recognized for all taxable differences between the tax basis of the liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the periods when the asset is realized or the liability is settled.

The carrying amount of deferred tax asset is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred taxes relating to items recognized directly in equity are reported in other comprehensive income and not in the statement of income.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liabilities are charged or credited directly to equity.

Retirement Benefit Cost

The Company has a contributory type of retirement benefit plan. It provides a benefit equal to the total amount standing to the credit of employee which shall consist of the accumulated value of contributions made by the company (5% of monthly salary) including all income thereto, net of administrative fees and expenses. Contributions to the plan are reported in the Statement of Income.

Foreign Currency Transactions and Translations

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (*the functional currency*). The financial statements are presented in Philippine Peso, the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of

monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

#### Related Party Transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

#### Provisions

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example legal disputes for onerous contract.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. In addition, long term provisions are discounted at their present values, where time value of money is material.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent asset, hence, are not recognized in the financial statements.

#### Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

#### Events after End of the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

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## **4. Changes in Accounting Standards and Disclosures**

### New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2022

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Company.

*Amendments to PFRS 3, Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine-IFRIC 21, Levies, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied prospectively.

*Amendments to PAS 16, Property, Plant and Equipment – Proceeds before Intended Use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before the asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 Inventories.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a Company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and costs are presented separately in the statement of comprehensive income.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments do not have significant impact on the Company's financial statements.

*Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets – Onerous Contract: Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments do not have significant impact on the Company's financial statements.

*Annual Improvements to PFRSs (2018-2020 cycle)*

The Annual Improvements to PFRSs (2018-2020 cycle) are effective for annual periods beginning or after January 1, 2022 and do not have a significant impact on the Company's financial statements.

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*  
 The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- *PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*  
 The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- *PFRS 16, Leases, Lease incentives illustrative example*  
 The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- *PAS 41, Agriculture, Taxation in fair value measurements*  
 The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

*New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2022*

The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2022 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on its financial position or performance.

*Effective beginning on or after January 1, 2023*

*Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

*Amendments to PAS 8, Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.



*Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

*Effective beginning on or after January 1, 2024*

*Amendments to PAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Company is currently assessing the impact the amendments will have on current practice.

*Amendments to PFRS 16, Leases - Lease Liability in a Sale and Leaseback*

The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements of PFRS 15, Revenue from Contracts with Customers, to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of lease. Any gain or loss to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted. The amendments are not expected to have a material impact on the Company.

*Effective beginning on or after January 1, 2025*

*PFRS 17, Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless

of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts

#### *Interpretation with Deferred Effective Date*

##### *Amendments to PFRS 10, Financial Statements, and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

#### *Deferral of adoption of PFRS 9*

In 2022 and 2021, the Company continues to apply the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 with PFRS 4* issued in 2016. The temporary exemption from applying the PFRS 9 is applicable until the mandatory effectivity of PFRS 17 for entities whose activities are predominantly connected with issuing contracts within the scope of PFRS 4. The predominance test, as required by the standard, was performed using the Statement of financial position as of December 31, 2017. Accordingly, the Company's gross liabilities arising from insurance contracts within the scope of PFRS 4 is equivalent to 57% of the total carrying amount of all its liabilities. No re-assessments have been performed at subsequent date because there was no substantial change in the business of Company that would require such re-assessment.

As the Company is eligible to apply the temporary exemption from applying PFRS 9, the Board of Directors decided to align the effective date of PFRS 9 to the mandatory adoption date of PFRS 17. The following information on fair value disclosure, credit risk exposure and credit concentrations are presented as required by the amended standard.

- (i) The fair value of financial assets at December 31, 2022 and 2021 classified between those that meet and those that does not meet the Solely Payment of Principal and Interest (SPPI) criteria and the changes in fair value are presented as follow:

	Fair values as of December 31, 2022		Fair values as of December 31, 2021	
	Meet the SPPI test	Does not meet the SPPI test	Meet the SPPI test	Does not meet the SPPI test
Cash and cash equivalent	P 59,356,304	P -	P 125,401,935	P -
FVPL	13,726,422	-	16,134,770	-
HTM	770,174,252	-	663,891,554	-
AFS	-	342,824,601	-	386,571,131
Insurance-related receivables	9,378,545	-	11,494,593	-
Other receivables	4,758,115	-	4,780,434	-

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest on principal outstanding.

- (ii) Information about the credit risk exposure of financial assets that meets the SPPI test is as follows:

	As of December 31, 2022				
	Neither Past Due nor Impaired		Past Due but		Total
	Rated	Unrated	Unimpaired	Impaired	
Cash and cash equivalent	P 37,829,161	P 21,527,143	P -	P -	P 59,356,304
FVPL	-	13,726,422	-	-	13,726,422
HTM	760,274,252	9,900,000	-	-	770,174,252
Insurance-related receivable	-	9,378,545	-	-	9,378,545
Other receivables	-	4,758,115	-	-	4,758,115

	As of December 31, 2021				
	Neither Past Due nor Impaired		Past Due but		Total
	Rated	Unrated	Unimpaired	Impaired	
Cash and cash equivalent	P 42,401,935	P 83,000,000	P -	P -	P 125,401,935
FVPL	-	16,134,770	-	-	16,134,770
HTM	660,491,554	3,400,000	-	-	663,891,554
Insurance-related receivable	-	11,494,593	-	-	11,494,593
Other receivables	-	4,780,434	-	-	4,780,434

- (iii) Information about the credit concentration of financial assets that meets the SPPI test is as follows:

As of December 31, 2022								
	Government		Financial Institution		All others		Total	
Cash and cash equivalent	P	-	P	59,356,304	P	-	P	59,356,304
FVPL		13,726,422		-		-		13,726,422
HTM		470,461,596		-		299,712,656		770,174,252
Insurance-related receivable		-		-		9,378,545		9,378,545
Other receivables		-		-		4,758,115		4,758,115

  

As of December 31, 2021								
	Government		Financial Institution		All others		Total	
Cash and cash equivalent	P	-	P	125,401,935	P	-	P	42,401,935
FVPL		16,134,770		-		-		16,134,770
HTM		351,470,000		-		312,421,554		663,891,554
Insurance-related receivable		-		-		11,494,593		11,494,593
Other receivables		-		-		4,780,434		4,780,434

## 5. Summary of Significant Accounting Judgments and Estimates

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

### *Determination of functional currency*

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Company operates.

### *Classification of investments*

In classifying its investments, the Company follows the guidance of PAS 39. In making the judgment, the Company evaluates its intention, marketability of the instrument and its ability to hold the investments until maturity.

The classification of investments as at December 31, 2022 and 2021 is as follows:

	2022		2021	
Fair value through profit or loss	P	13,726,422	P	16,134,770
Available-for-sale		342,824,601		386,571,131
Held-to-maturity		770,174,252		663,891,554

### *Distinction between investment properties and owner-occupied properties*

The Company determines whether a property qualifies as investment property. If an insignificant portion is leased out under the operating lease, the property is treated as Property and equipment. If the property is not occupied and is held to earn it is treated as Investment property.

Investment property amounted to P87,315,000 and P26,228,000 as of December 31, 2022 and 2021, respectively.

Owner-occupied properties, net of accumulated depreciation and impairment losses amounted to P375,872,447 and P140,343,915 in 2022 and 2021, respectively.

*Determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

*Determining the appraised value of investment property and property and equipment*

The Company determines the appraised value of its investment property and condominium unit through the use of an independent appraiser.

An appraiser values the property through the use of *market approach*. In this approach, the value of the condominium unit was based on sales and listings of comparable properties registered within the vicinity. The technique of this approach requires adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property.

The appraised value of the Company's Investment property account amounted to P87,315,000 and P26,228,000 as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, and 2021 the Company's property and equipment measured at appraised value has a carrying value of P375,872,447 and P140,343,915, respectively. (see Note 13)

Estimates

The key assumptions concerning the future and other key sources of estimation of uncertainty at reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Determination of fair value of financial assets and liabilities*

The fair value for assets and liabilities traded in active market at the reporting date is based on their quoted market price. For all other assets and liabilities not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Group recognizes the difference between the transaction price and fair value in the statements of income unless it qualifies for recognition as some other type of asset.

*Estimating allowance for impairment of financial assets*

The Company maintains allowance for probable loss at a level considered adequate to provide for potential uncollectible accounts. The level of allowance for doubtful accounts is evaluated by management on the basis of factors affecting collectability of the financial assets. In addition, a review of the accounts designed to identify accounts to be provided with allowance, is made on a continuing basis.

No provision for impairment of AFS financial asset was recognized in 2022 and 2021.

*Estimating useful lives of property and equipment*

The Company reviews annually the estimated useful lives of property and equipment, based on the period on which the assets are expected to be available for use. It is possible that future results of operation could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset account.

Property and equipment, net of accumulated depreciation and impairment losses, amounted to P375,872,447 and P140,343,915, as at December 31, 2022 and 2021, respectively. (See Note 13).

*Deferred tax asset*

The Company reviews the carrying amounts of deferred tax asset at each reporting date and reduces the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset as of December 31, 2022 and 2021 amounted to P1,199,980 and P2,411,324, respectively. (See Note 29)

*Impairment of non-financial assets*

The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant under performance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

No impairment losses were provided for property and equipment and investment property in 2022 and 2021 because management believes that the carrying values approximate their fair values.

*Valuation of insurance contract liabilities*

Estimates have to be made at the reporting date for both the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to profit or loss.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain Ladder method and Bornhuetter-Ferguson method based on paid and reported claims information.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely

outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2022 and 2021, the carrying values of provision for IBNR amounted to P3,920,724 and P6,436,441, respectively (Note 18).

## 6. Fair Value Measurement

### (i) Financial instruments

The fair value of financial instruments and their carrying amounts is as follows:

Category of financial instruments	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
FVPL	P 13,726,422	P 13,726,422	P 16,134,770	P 16,134,770
AFS	342,824,601	342,824,601	386,571,131	386,571,131
HTM	770,174,252	770,174,252	663,891,554	671,713,778
Loans and receivable				
Cash and cash equivalents	59,356,304	59,356,304	125,401,935	125,401,935
Short-term investments	56,555,587	56,555,587	45,246,746	45,246,746
Insurance and reinsurance				
balances receivable	9,378,545	9,378,545	11,494,593	11,494,593
Other receivables	900,184	900,184	658,382	658,382
Other financial liabilities				
Insurance claims payable	18,965,170	18,965,170	31,840,707	31,840,707
Accounts payable and				
accrued expenses	33,259,395	33,259,395	30,693,120	30,693,120
Reinsurance liabilities	5,980,855	5,980,855	5,085,684	5,085,684

\*Excludes cash on hand of P63,000 in 2022 and P113,000 in 2021

The fair value hierarchy of the Company's financial instruments are summarized in the tables below.

	2022			
	Fair value	Level 1	Level 2	Level 3
<b>Financial instruments measured at fair value</b>				
FVPL				
Treasury bills	P 13,726,422	P 13,726,422	P -	P -
AFS				
Equity securities	168,814,826	168,814,826	-	-
Proprietary membership shares	1,050,000	-	1,050,000	-
Unit investment trust funds	97,410,332	-	97,410,332	-
Investment management funds	75,549,443	-	75,549,443	-
<b>Financial instruments for which fair value is disclosed</b>				
HTM				
Government securities	471,700,494	471,700,494	-	-
Corporate securities	318,971,823	318,971,823	-	-
Loans Receivable				
Cash and cash equivalents	59,356,304	-	59,356,304	-
Short-term investments	56,555,587	-	56,555,587	-
Insurance and reinsurance				
balances receivable	9,378,545	-	-	9,378,545
Other receivables	900,184	-	-	900,184
Other financial liabilities				
Insurance claims payable	18,965,170	-	-	18,965,170
Accounts payable and				
accrued expenses	33,259,395	-	-	33,259,395
Reinsurance liabilities	5,980,855	-	-	5,980,855

		2021			
		Fair value	Level 1	Level 2	Level 3
<b>Financial instruments measured at fair value</b>					
FVPL					
Treasury bills	P	16,134,770	P 16,134,770	P -	P -
AFS					
Equity securities		191,367,137	191,367,137	-	-
Proprietary membership shares		570,000	-	570,000	-
Unit Investment Trust Funds		116,196,202	-	116,196,202	-
Investment Management Funds		78,437,792	-	78,437,792	-
<b>Financial instruments for which fair value is disclosed</b>					
HTM					
Government securities		352,741,955	352,741,955	-	-
Corporate securities		318,971,823	318,971,823	-	-
Loans Receivable					
Cash and cash equivalents		125,401,935	-	125,401,935	-
Short-term investments		45,246,746	-	45,246,746	-
Insurance and reinsurance balances receivable		11,494,593	-	-	11,494,593
Other receivables		658,382	-	-	658,382
Other financial liabilities					
Insurance claims payable		31,840,707	-	-	31,840,707
Accounts payable and accrued expenses		30,693,520	-	-	30,693,520
Reinsurance liabilities		5,085,684	-	-	5,085,684

The company measures fair value of financial assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- **Level 1**  
Inputs are quoted in active market for identical assets or liabilities that the entity can access at the measurement date.  
  
Included in Level 1 category are assets and liabilities that are measured in whole or in part by reference to published quotes in an active market.  
  
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- **Level 2**  
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3**  
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Fair values were determined as follows:

- *Cash and cash equivalents, short-term investments*— the fair values are approximately the carrying amounts because of their short-term nature.
- *Quoted debt securities (government and corporate)* – the fair values were determined from the published references from Philippine Dealing System or third-party information.



- *Quoted equity securities* - the fair values were determined from the published prices from Philippine Stock Exchange.
- *Non-quoted AFS investment* – valuation technique using significant observable inputs. Where valuation technique is not representative of fair values, the acquisition cost is used as fair value.
- *Pooled funds* – The fair value was determined via Net Asset Value per share/units. These are calculated by dividing the fair value of net assets over the total number of shares/units issued.
- *Receivables, deposits and other financial liabilities* - Due to their short duration, the carrying amounts of Receivables, deposits and other financial liabilities in the statement of financial position are considered to be reasonable approximation of their fair values.

(ii) *Non-Financial Assets*

Investment Property

On June 2022, the Company's investment property and property and equipment were appraised by an independent firm of appraiser. The appraisal resulted to the recognition of unrealized gain on fair value adjustment of investment property of P51,697,000. Fair value is determined using the Market approach under the level 3 of the fair value hierarchy. The highest and best use of these properties is commercial, its current use.

The description of valuation techniques and inputs used in determining the fair value of investment property is as follows:

Property location	Property description			
88 Corporate Center	Condominium Unit	Fair value	P	40,924,000
		Adjustment factors:		
		Building age		+10%
		Building design		+5%
		Bargain allowance		-5%
Dagupan City	Land and Building	Fair value		10,136,000
		Adjustment factors:		
		Road influence		-5%
		Size		5%
		Neighborhood		+10%
Quezon City	Land and Building	Fair value		36,255,000
		Adjustment factors:		
		Location		+10%
		Size		+5%
		Neighborhood		+5%
		Utility		+5%
		Bargain allowance		-10%

Management believes that the fair value of investment property as of December 31, 2022 does not materially differ from last appraisal made.

The description of valuation techniques and inputs used in determining the fair value of property and equipment is as follows:

Property location	Property description		Observable Inputs
Makati City	Condominium Unit	Fair value	P 102,300,000
		Adjustment factors:	
		Unit Area/Size	-5%
		Building age	+5% to 10%
		Bargain allowance	-5%
Bacolod City	Land and Building	Fair value	8,708,000
		Adjustment factors:	
		Corner influence	+5%
		Unit Area/Size	+5% to 10%
		Accessibility	-15% to -10%
		Neighborhood	-10%
		Bargain allowance	-10% to -5%
Cebu City	Land and Building	Fair value	110,117,000
		Adjustment factors:	
		Size	+5% to 10%
		Corner influence	-5%
		Neighborhood	-5%
		Utility	-20%
		Bargain allowance	-20% to -10%
Cagayan de Oro	Land and Building	Fair value	19,504,000
		Adjustment factors:	
		Size	+5%
		Location	+5%
		Corner influence	+5%
		Bargain allowance	-10%
San Pablo City	Land and Building	Fair value	5,653,000
		Adjustment factors:	
		Size	+5%
		Location	+10%
		Neighborhood	+5% to 10%
		Road influence	-5%
		Bargain allowance	-10%
Dumaguete City	Land and Building	Fair value	23,124,000
		Adjustment factors:	
		Size	-5%
		Shape	-5%
		Accessibility	+10%
		Neighborhood	+10%
		Development	+10%
		Potential use	+10%
		Bargain allowance	-10%
Zamboanga City	Land and Building	Fair value	9,766,000
		Adjustment factors:	
		Size	+10%
		Location	-10% to +5%
		Bargain allowance	-10%
General Santos City	Land and Building	Fair value	13,021,000
		Adjustment factors:	
		Accessibility	+5% to 10%
		Neighborhood	+5% to 10%
		Corner influence	+5% to 10%
		Bargain allowance	-10%
Pagadian City	Land and Building	Fair value	22,157,000
		Adjustment factors:	
		Location	-10%
		Size	-5%
		Bargain allowance	-10% to 0%

The assigned value for land and building was estimated using the Market Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.

The equivalent depreciation of revaluation reserve in buildings are transferred to retained earnings annually. As of December 31, 2022 and 2021, the balance of revaluation reserve on land and buildings amounted to P275,667,239 and P106,800,752 respectively, net of deferred tax effect.

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## 7. Management of Insurance Risk, Financial Risk and Capital

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Internally, the Company manages its risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Reinsurance facilities in force include surplus treaties, catastrophe cover and facultative reinsurance.

### *Valuation Standards for Non-life Insurance Companies*

On December 28, 2016, IC issued Circular Letter 2016-67 pertinent to valuation standards for non-life insurance policy reserves. The valuation reserve is premised on the following basic assumptions:

- The valuation of policy reserves shall be based on the Company's actual historical experience and/or industry data. The projection of future claims shall be based on the loss development triangles as well as the information gathered from the underwriting and claims department;
- The valuation is to be conducted by an IC-accredited actuary;
- The reserves shall be composed of premiums and claims liabilities both determined using the best estimate assumption, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.
- Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR), calculated using the 24th method and Unexpired Risk Reserve (URR). URR refers to the amount of reserve required to cover future claims, commission and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period cover.
- Claims liabilities shall be calculated as the sum of outstanding claims reserve, claims handling expense and Incurred But Not Reported (IBNR), with MfAD.

The concentration of insurance claims as at December 31, 2022 and 2021 is as follows:

(000 omitted)	2022			2021		
	Gross	Share of Reinsurer	Net Liability	Gross	Share of Reinsurer	Net Liability
<b>Motor car</b>	P 16,915	P -	P 16,915	P 29,531	P -	P 29,531
<b>Fire</b>	1,780	488	1,292	1,518	477	1,041
<b>Marine</b>	-	-	-	118	118	-
<b>Personal accident</b>	270	-	270	674	89	585
	<b>P 18,965</b>	<b>P 488</b>	<b>P 18,477</b>	<b>P 31,841</b>	<b>P 684</b>	<b>P 31,157</b>

#### Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

#### Credit Risk

Credit risk is risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

Key areas where the Company is exposed to credit risk are:

- Reinsurers' share of insurance premiums,
- Amounts due from reinsurers on claims already paid,
- Amounts due from insurance contract holders, and
- Amounts due from insurance intermediaries.

#### Exposure

The table below shows the gross maximum exposure to credit risk of the Company as at December 31, 2022 and 2021.

	2022	2021
Cash and cash equivalents and short-term investments*	P 115,911,891	P 170,648,681
Financial assets		
FVPL	13,726,422	16,134,770
AFS	342,824,601	386,571,131
HTM	770,174,252	663,891,554
Insurance balance receivable	7,912,240	10,139,054
Reinsurance assets	2,345,501	684,016
Accrued investment income	4,329,327	4,561,542
Other assets	1,544,832	1,303,030
	<b>P 1,258,769,066</b>	<b>P 1,253,933,778</b>

\*Excludes cash on hand of P63,000 in 2022 and P113,000 in 2021.

The Company uses the following risk mitigation policies to reduce credit risks:

- Cash in banks and short-term investments are deposited and placed with reputable commercial and universal banks in the Philippines. Moreover, all bank deposits are automatically covered up to a certain amount from Philippine Deposit Insurance Corporation.
- Financial assets that are HTM are debt securities issued and guaranteed by the Philippine government which are considered risk free. HTM investments are lodge under Philippine Depository & Trust Corporation. Furthermore, prior approval from IC is sought before the Company can invest on these securities.
- The Company's equity investments classified as AFS are mostly stocks belonging to Philippine Stock Exchange Index (PSEi) with regular trading transaction in the Philippine Stock Exchange. Other AFS investment includes government securities in foreign currencies and in Investment Management Accounts.
- Insurance balances of brokers and agents have a maximum age of 90 days. Commissions are released only upon full remittance of premiums. Reinsurance arrangements are placed only with reputable reinsurers at industry acceptable terms.
- Accrued investment income is collectible in subsequent period. Interest proceeds are either rolled over to principal balance or credited to savings account.

#### Credit Quality

The credit quality of group of financial assets are as follows:

##### (i) Cash-in-bank, cash equivalents and short-term investments

Substantial portion of the Company's Cash-in-banks, Cash equivalents and Short-term investments are maintained in universal and commercial banks thereby limiting the credit risk. Limits are placed on thrift and lower-tiered banks. This is consistent with Company's internal policy on deposit maintenance. Cash-in-bank, cash equivalents and short-term investments classified by type of banks are as follows:

		2022		2021
Universal bank	P	55,739,476	P	122,963,312
Commercial bank		58,738,587		47,404,834
Thrift and rural banks		1,433,828		280,535
	P	115,911,891	P	170,648,681

##### (ii) Available-for-sale and Held-to-maturity Investments

The credit risk on investments represents the risk of actual default of the issuer. This risk is managed through limits which takes into account the type of credit exposure, credit quality and, where needed, maturity, and through regular monitoring and early warning systems. Investment exposures and limits are monitored on a regular basis.

The limits are defined by the following categories:

- Limits on government securities is guided by the existing circulars issued by the Insurance Commission;
- Limits on corporate bonds are based on certain criteria such as total corporate bonds exposure as a percentage of the portfolio, limits by sector based on the credit ratings; currency and monitoring of concentrated exposure;

The credit rating applied by the Company is based on the best available rating from Moody's, Fitch and Standard & Poor's. For specific exposure types, other rating agencies can be used such as AM Best for reinsurance counterparties.

The table below provides information on the credit quality of insurance receivables.

December 31, 2022							
	No. of days past due					Total	
	30 days	60 days	90 days	180 days	over 180 days		
Due from agents and brokers	P 3,143,662	P 502,193	P -	P -	P 1,291,703	P 4,937,558	
Due from ceding companies	-	-	-	-	1,705,816	1,705,816	
	P 3,143,662	P 502,193	P -	P -	P 2,997,519	P 6,643,374	

  

December 31, 2021							
	No. of days past due					Total	
	30 days	60 days	90 days	180 days	over 180 days		
Due from agents and brokers	P -	P -	P -	P -	P 7,471,930	P 7,471,930	
Due from ceding companies	9,129	-	-	1,389,130	-	1,398,259	
	P 9,129	P -	P -	P 1,389,130	P 7,471,930	P 8,870,189	

The table below provides information on the concentration of credit risk as of December 31 by type of financial assets:

December 31, 2022						
	Cash & cash equivalents	FVPL	Available-for-sale	Held-to-maturity	Receivables	Total
Insurance	P -	P -	P 2,525,638	-	P 7,033,044	P 9,558,682
Financial institution	37,829,161	-	190,952,040	305,039,423	-	533,820,624
Government	-	-	-	258,424,829	-	258,424,829
Holding companies	-	-	25,560,816	121,170,000	-	146,730,816
Property	-	-	53,016,940	46,400,000	-	99,416,940
Oil, power & energy	-	13,726,422	46,551,545	25,140,000	-	85,417,967
ICT	-	-	-	14,000,000	-	14,000,000
Food and beverage	-	-	1,716,320	-	-	1,716,320
Construction	-	-	1,580,813	-	-	1,580,813
Mining	-	-	12,806,875	-	-	12,806,875
Manufacturing	-	-	387,800	-	-	387,800
Service and others	-	-	7,725,814	-	-	7,725,814
	P37,829,161	P13,726,422	P342,824,601	P 770,174,252	P 7,033,044	P 1,171,587,480

  

December 31, 2021						
	Cash & cash equivalents	FVPL	Available-for-sale	Held-to-maturity	Receivables	Total
Insurance	P -	P -	P 2,966,978	P -	P 9,259,858	P 12,226,836
Financial institution	42,401,935	-	305,445,628	317,570,000	-	665,417,563
Government	-	16,134,770	-	159,671,554	-	175,806,324
Holding companies	-	-	25,744,774	88,070,000	-	113,814,774
Property	-	-	26,773,215	56,940,000	-	83,713,215
Oil, power & energy	-	-	12,577,018	27,640,000	-	40,217,018
ICT	-	-	497,060	-	-	497,060
Food and beverage	-	-	4,160,208	14,000,000	-	18,160,208
Construction	-	-	2,617,834	-	-	2,617,834
Mining	-	-	961,415	-	-	961,415
Manufacturing	-	-	2,870,000	-	-	2,870,000
Service and others	-	-	1,957,000	-	-	1,957,000
	P42,401,935	P16,134,770	P386,571,130	P 663,891,554	P 9,259,858	P 1,118,259,247

#### Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

Contractual maturities of financial assets and liabilities as at December 31, 2022 and 2021 are presented below:

<b>2022 (In thousand)</b>	<b>Contractual maturities</b>			<b>Total</b>
	<b>&lt; 1 year</b>	<b>&gt; 1 year &lt; 5 years</b>	<b>&gt;5 years</b>	
<b>Financial assets that are :</b>				
<b>Cash and cash equivalents</b>				
(including short-term investments)*	P 115,912	P -	P -	P 115,912
FVPL	13,726	-	-	13,726
HTM	140,506	392,708	236,960	770,174
Insurance balances receivable	7,033	-	-	7,033
Reinsurance assets	2,346	-	-	2,346
Accrued investment income	4,329	-	-	4,329
Advances to employees	289	-	-	289
Deposits	1,116	-	-	1,116
<b>Financial liabilities:</b>				
Accounts payable				
and accrued expenses	33,259	-	-	33,259
Reinsurance liabilities	5,981	-	-	5,981

<b>2021 (In thousand)</b>	<b>Contractual maturities</b>			<b>Total</b>
	<b>&lt; 1 year</b>	<b>&gt; 1 year &lt; 5 years</b>	<b>&gt;5 years</b>	
<b>Cash and cash equivalents</b>				
(including short-term investments)*	P 170,649	P -	P -	P 170,649
FVPL	16,135	-	-	16,135
HTM	175,043	383,168	105,680	663,891
Insurance balances receivable	9,260	-	-	9,260
Reinsurance assets	2,234	-	-	2,234
Accrued investment income	4,562	-	-	4,562
Advances to employees	79	-	-	79
Deposits	475	-	-	475
<b>Financial liabilities:</b>				
Accounts payable				
and accrued expenses	30,693	-	-	30,693
Reinsurance liabilities	5,086	-	-	5,086

It is unusual for a Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied in insurance contracts to ascertain the likely provision and time period when such liabilities will require settlement. The amount and maturities in respect of insurance liabilities are thus based on management's best estimate and on statistical techniques and past experience.

#### Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Sensitivity analysis of market risk exposures follows:

i. Currency risk

Foreign currency risk pertains to US\$ denominated cash, special savings accounts and AFS investments. No foreign currency forward contracts are outstanding as at December 31, 2022 and 2021 to hedge the foreign currency accounts.

The carrying values of financial assets exposed to currency risk at the end of reporting period are as follows:

	2022		2021	
	Phil. Peso	US \$	Phil. Peso	US \$
Cash, cash equivalents and short-term investments	P 11,351,302	\$ 203,593	P 21,409,421	\$ 421,661
AFS investments	19,032,379	341,357	19,032,379	374,845
Accrued investment income	38,541	691	38,541	759
	P 30,422,222	\$ 545,641	P 40,480,341	\$ 797,266

The following table demonstrates the sensitivity to a reasonable change in the US\$ exchange rate, with all other variables held constant, of the Company's income before tax and equity:

Increase/Decrease in Peso to US Dollar Rate		Effect on income before taxes	Effect on equity
+2	2022	+ 0.30 million	+ 1.09 million
-2		- 0.30 million	- 1.09 million
+2	2021	+ 0.60 million	+ 1.39 million
-2		- 0.60 million	- 1.39 million

ii. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.



The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the security. Exposures to interest rate risk comprise the following:

		As of December 31, 2022		
		Due in		
		< 1 year	> 1 year but <5 years	> 5 years
Interest rate				
<b>Financial assets that are:</b>				
Cash, cash equivalents				
and short-term investments	0.25% to 0.625%	P 115,911,891	P -	P -
FVPL	1.38% to 1.75%	13,726,422	-	-
HTM	2.38% to 6.94%	140,506,069	392,708,056	236,960,126

  

		As of December 31, 2021		
		Due in		
		< 1 year	> 1 year but <5 years	> 5 years
Interest rate				
<b>Financial assets that are:</b>				
Cash, cash equivalents				
and short-term investments	0.25% to 0.625%	P 170,648,681	P -	P -
FVPL	1.38% to 1.75%	16,134,770	-	-
HTM	2.38% to 6.94%	175,043,056	383,167,856	105,680,642

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate investments). There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/ decrease in basis points	Effect on income before income tax
<b>2022</b>	<b>+ 200</b>	<b>P 17,239,668</b>
	<b>- 200</b>	<b>(17,239,668)</b>
<b>2021</b>	<b>+ 200</b>	<b>P 16,165,461</b>
	<b>- 200</b>	<b>(16,165,461)</b>

### iii. Price risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of equity price on a monthly basis by assessing the expected changes in the different portfolio due to parallel movements of a 10% increase or decrease in the Philippine stock exchange index (PSEI).

With all other variables held constant, a 10% movement in the stock exchange would result in an impact on equity of P34.3 million in 2022 and P38.7 million in 2021. This does not affect income since changes in fair value of AFS investments are taken to equity.

### iv. Operational risk

Operational risk is the risk of loss from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage risk. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff

education and assessment processes. Business risk such as changes in environment, technology and industry are monitored through the Company's strategic planning and budgeting processes.

#### Capital management

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities and externally imposed capital requirements.

The company regards the following as the capital it manages as at December 31, 2022 and 2021.

	<b>2022</b>		<b>2021</b>	
Share capital	<b>P</b>	<b>250,000,000</b>	<b>P</b>	250,000,000
Contributed surplus		<b>33,000</b>		33,000
Retained earnings		<b>1,005,898,017</b>		913,849,974
	<b>P</b>	<b>1,255,931,017</b>	<b>P</b>	1,163,882,974

#### Net worth Requirement

Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

Pursuant to IC Circular No. 2015-02-A, dated January 13, 2015 issued on the basis of Republic Act 10607 known as the Revised Insurance code, domestic insurance companies under the supervision of IC must have a net worth of at least P250 million by December 31, 2013. The minimum net worth of a particular company shall remain unimpaired at all times and shall be increased to the following amounts:

	<u>Minimum networkth</u>	<u>Compliance date</u>
P	550,000,000	December 31, 2016
	900,000,000	December 31, 2019
	1,300,000,000	December 31, 2022

Insurance Memorandum Circular 22-2008 further clarified that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth is at least equal to the actual paid-up capital.

As at December 31, 2022 the Company is in compliance with the required minimum net worth requirements. As of December 31, 2022 the company believes that it is in compliant with the requirement net worth even after deducting non-admitted assets identified by the IC.

The statutory net worth is based on Regulatory Accounting Policies and may be determined only after the accounts of the Company have been examined by the IC.

#### Risk-Based Capital Requirement

The IC has adopted a three (3) pillar risk-based approach to solvency which comprise the following:

- Quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital;
- Governance and risk management requirement tht consists of supervisory review process which may include a supervisory adjustment to capital; and
- Disclosure requirement designed to encourage market discipline.

The minimum RBC ratio is set at 100% which are required to be maintained at all times. Failure to meet the minimum RBC ratio shall subject the Company to the corresponding regulatory intervention which has been defined at various levels as follows:

- Company Action Event – the RBC is less than 100% but not below 75%, the Company is required to identify the conditions that contributed to the event and will provide corrective actions that company intend to take including future projections of financial position and analysis of operations.
- Regulatory Action Event – the RBC is less than 75% but not below 50%, the Company is submit an RBC plan and IC will perform an examination of the Company including its RBC plan.
- Authorized and Mandatory Control Event – the RBC is less than 50%, the IC is required to place Company under regulatory control. The Company is placed under the regulatory control of IC.

The RBC ratio is calculated as Total Available Capital divided by the RBC requirement. TAC shall include the (i) paid-up capital, (ii) other capital surplus and (iii) Special surplus funds to the extent authorized by IC.

Internal calculations of RBC ratio as at December 31, 2022 and 2021 revealed the following:

		2022		2021
Networth	P	1,507,564,098	P	1,276,893,573
RBC requirement		167,607,049		134,795,129
RBC ratio		899%		947%

The computation of RBC is based on the regulatory accounting policy in accordance with the Philippine Insurance Code. The RBC can be determined only after the accounts of the Company have been examined by the IC.

## 8. Cash and Cash Equivalents and Short-term Investments

This account consists of:

		2022		2021
Cash on hand	P	63,000	P	113,000
Cash in banks		37,829,161		42,401,935
Short-term bank placements		21,527,143		83,000,000
Cash and cash equivalents	P	59,419,304	P	125,514,935
Short-term investments	P	56,555,587	P	45,246,746

Cash in banks and short-term bank placements earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P657,559 in 2022 and P793,435 in 2021. (See Note 24)

Short-term investments are placed for a period of more than 3 months but not more than 12 months. These investments earn interest at the rate of 0.25% to 0.625% in 2022 and in 2021.

## 9. Financial Assets

The reconciliation of the carrying amounts of financial assets at the beginning and end of the year is as follows:

As of December 31, 2022					
		FVPL	AFS	HTM	Total
Gross carrying value					
Balance at the beginning of year	P	16,134,770	P 386,571,131	P 663,891,554	P 1,066,597,455
Additions		13,726,422	323,020,101	286,312,028	623,058,550
Disposal/Maturity		(16,134,770)	(337,336,756)	(180,029,330)	(533,500,855)
Changes in fair value		-	(29,429,876)	-	(29,429,876)
Balance at the end of the year		13,726,422	342,824,601	770,174,252	1,126,725,274
Allowance for impairment losses		-	-	-	-
	P	13,726,422	P 342,824,601	P 770,174,252	P 1,126,725,274

  

As of December 31, 2021					
		FVPL	AFS	HTM	Total
Gross carrying value					
Balance at the beginning of year	P	10,732,072	P 323,102,568	P 705,438,303	P 1,039,272,943
Additions		16,134,770	114,577,606	123,410,000	254,122,376
Disposal/Maturity		(11,000,000)	(74,359,740)	(164,674,168)	(250,033,908)
Amortization of premium		267,928	-	(282,581)	(14,653)
Changes in fair value		-	24,370,697	-	24,370,697
Balance at the end of the year		16,134,770	387,691,131	663,891,554	1,067,717,455
Allowance for impairment losses		-	(1,120,000)	-	(1,120,000)
	P	16,134,770	P 386,571,131	P 663,891,554	P 1,066,597,455

### Fair value through Profit or Loss (FVPL) Investments

Investments that are designated at FVPL represent Treasury Bills (TBills) issued by the Philippine Government with interest rates ranging from 1.38% to 1.75% per annum for the years 2022 and 2021. TBills comprise a portfolio of financial instruments that are managed for which there is an evidence of recent actual pattern of short-term profit-taking. As December 31, 2022 and 2021 the total face value of TBills which are due 12 months amounted to P13.73 million and P16.03 million, respectively. Due to its relatively short-term nature, the carrying value amounting to P13.73 million in 2022 and to P16.13 million in 2021 approximates the fair value at year-end.

### Available-for-sale (AFS) Investments

Investments categorized as AFS includes listed and unlisted equity securities, government securities, investment management funds and unitized investments. These investments are carried at fair values determined using the quoted market prices categorized as level 1 and 2 in the fair value hierarchy. Fair value sources are discussed in Note 6. Unquoted equity securities are carried at cost less allowance for impairment due to the lack of a reliable estimate necessary to calculate fair value.

The breakdown of this account is as follows:

	2022	2021
Listed equity securities		
Common shares	P 120,593,896	P 143,146,207
Preferred shares	48,220,930	48,220,930
Proprietary membership shares	1,050,000	570,000
Unit investment trust funds	97,410,332	116,196,202
Investment management funds	75,549,443	78,437,792
	<b>P 342,824,601</b>	<b>P 386,571,131</b>

Income (loss) on these investments reported in the statements of income are as follows:

	2022	2021
Interest	P 880,545	P 2,396,922
Dividends	8,399,980	16,292,346
Realized gain on sale of AFS	6,510,806	3,300,804

The reconciliation of Revaluation reserve are as follows:

	2022	2021
Balance at beginning of year	P 9,243,136	P (14,978,093)
Fair value gains (losses) taken to:		
Other comprehensive income (OCI)	(31,336,246)	24,221,229
Balance at end of year	<b>P (22,093,110)</b>	<b>P 9,243,136</b>

#### Held-to-Maturity (HTM) Investments

Investments classified as HTM are as follows:

	2022	2021
Government securities		
Fixed-rate treasury notes (FXTN)	P 471,700,494	P 352,741,955
Corporate debts and bonds	298,473,758	311,149,599
	<b>P 770,174,252</b>	<b>P 663,891,554</b>

Corporate debts and bonds issued by various private corporations are for period ranging from 5 years to 15 years from original issue. These securities are subject to a periodic interest rate of 2.38% to 6.94%.

Interest earned on HTM investments amounted to P33,549,664 in 2022 and P39,060,521 in 2021. (See Note 24)

The maturity profile of this account is presented below:

Due in:	2022	2021
One year	P 140,506,070	P 175,043,056
More than one year but less than five years	392,708,056	383,167,856
Beyond five years	236,960,126	105,680,642
	<b>P 770,174,252</b>	<b>P 663,891,554</b>

Pursuant to Section 209 of the Insurance Code, at least 25% of minimum statutory net worth required under Section 194 of the Code must be invested in securities consisting of bonds or other debt instruments issued by the Philippine Government or its instrumentalities. The invested funds shall at all times be maintained free from any lien or encumbrance and shall

be deposited with and held by IC for the faithful performance of the Company's obligations under its insurance contracts. This requirement was fully complied by the Company as of December 31, 2022 and 2021.

#### 10. Insurance Balances Receivable

The breakdown of this account is as follows:

	2022	2021
Due from agents and brokers	P 4,937,558	P 7,471,930
Due from ceding companies	1,705,816	1,398,259
Funds held by ceding companies	1,268,866	1,268,865
	7,912,240	10,139,054
Allowance for probable losses	(879,196)	(879,196)
	P 7,033,044	P 9,259,858

Average term of due from brokers and agents is 1-3 months.

Due from ceding companies have an average term of 30 to 90 days. Funds held by ceding companies represent portion of the premium withheld by ceding companies in accordance with reinsurance agreements.

There is no concentration of credit risk with respect to insurance receivables, as the Company has a diverse base of agents, brokers and reinsurers.

Management believes that the carrying values disclosed above are reasonable approximates of their fair values.

#### 11. Reinsurance Assets

This account consists of:

	2022	2021
Reserve for reinsurance premium (see Note 17)	P -	P 1,550,719
Reinsurance recoverable on unpaid losses (see Note 18)	2,345,502	684,016
	P 2,345,502	P 2,234,735

As at December 31, 2022 and 2021, management believes that reinsurance assets are fully recoverable and that no impairment loss is necessary.

## 12. Investment Property

The breakdown of this account is as follows:

	2022	2021
Acquisition cost		
Balance, beginning of year	P 13,302,715	P 13,302,715
Reclassification from property and equipment	9,390,000	-
Balance, end of year	22,692,715	13,302,715
Accumulated increase in fair value		
Balance, beginning of year	12,925,285	12,925,285
Increase in fair value	51,697,000	-
Balance, end of year	64,622,285	12,925,285
	P 87,315,000	P 26,228,000

The details of investment properties are as follows:

	2022	2021
Makati City Condominium unit	P 40,924,000	P 26,228,000
Dagupan City Land and building	10,136,000	-
Quezon City Land and building	36,255,000	-
	P 87,315,000	P 26,228,000

On June 14, 2022, the Company's investment properties were appraised by an independent firm of appraiser. The investment properties were revalued in accordance with the prevailing market prices as of said date. The appraisal resulted to the recognition of unrealized gain on fair value adjustment of investment property amounting to P51,697,000. Fair value is determined using the Market Approach under the level 3 of fair value hierarchy. The highest and best use of these properties is residential utility, commercial utility, and residential-farm utility.

During the year, the Company's land and buildings in Dagupan and Quezon City which were previously occupied as branch offices were reclassified to investment property (see Note 13). These properties are now leased out to third parties under the terms and conditions mutually agreed upon by the Company and the tenants.

Rental income on these properties amounted to P3,027,777 in 2022 and P4,422,925 in 2021.

### 13. Property and Equipment - net

The breakdown of this account is as follows:

2022	Land*	Building & condominium units*	Furniture, fixtures & office equipment	Transportation equipment	Total
<b>Costs</b>					
At January 1, 2022	P 93,243,800	P 74,566,972	P 16,163,886	P 26,824,205	P 210,798,863
Additions	-	-	217,994	-	217,994
Reclassification to investment property	(9,390,000)	-	-	-	(9,390,000)
Revaluation increment	174,960,000	72,552,638	-	-	247,512,638
At December 31, 2022	258,813,800	147,119,610	16,381,880	26,824,205	449,139,495
<b>Accumulated depreciation and impairment losses</b>					
At January 1, 2022	17,800	28,431,859	15,181,084	26,824,205	70,454,948
Provisions	-	2,065,751	746,349	-	2,812,100
At December 31, 2022	17,800	30,497,610	15,927,433	26,824,205	73,267,048
<b>Net Carrying Value</b>					
At December 31, 2022	P 258,796,000	P 116,622,000	P 454,447	P -	P 375,872,447

\*At appraised value

2021	Land*	Building & condominium units*	Furniture, fixtures & office equipment	Transportation equipment	Total
<b>Costs</b>					
At January 1, 2021	P 93,243,800	P 74,566,972	P 15,473,293	P 26,824,205	P 210,108,270
Additions	-	-	690,593	-	690,593
At December 31, 2021	93,243,800	74,566,972	16,163,886	26,824,205	210,798,863
<b>Accumulated depreciation and impairment losses</b>					
At January 1, 2021	17,800	26,366,108	14,637,836	26,824,205	67,845,949
Provisions	-	2,065,751	543,248	-	2,608,999
At December 31, 2021	17,800	28,431,859	15,181,084	26,824,205	70,454,948
<b>Net Carrying Value</b>					
At December 31, 2021	P 93,226,000	P 46,135,113	P 982,802	P -	P 140,343,915

\*At appraised value

Depreciation of property and equipment charged to operations amounted to P2,812,100 in 2022 and P2,608,999 in 2021.

### 14. Deferred Acquisition Costs (DAC) and Deferred Commission Income (DCI)

Movements of this account during the year are as follows:

2022	Deferred commission expense	Deferred commission income	Net DAC
Balances, beginning	P 15,063,571	P 500,823	P 14,562,748
Net changes in acquisition cost (see Note 26)	(1,486,718)	90,245	(1,576,963)
	P 13,576,853	P 591,068	P 12,985,785



2021	Deferred commision expense	Deferred commision income	Net DAC
Balances, beginning	P 15,613,540	P 428,671	P 15,184,869
Net changes in acquisition cost (see Note 26)	(549,969)	72,152	(622,121)
	P 15,063,571	P 500,823	P 14,562,748

As at December 31, 2022 and 2021, management believes that DAC are fully recoverable and that no impairment loss is necessary.

#### 15. Accrued Investment Income

The sources of this account are as follows:

	2022	2021
Interest		
Debt instruments	P 3,769,141	P 4,087,827
Cash and cash equivalents	282,516	140,162
Treasury bills	150,823	-
Short-term investments	126,847	137,573
Dividends	-	195,980
	P 4,329,327	P 4,561,542

#### 16. Other Assets

This account consists of:

	2022	2021
Advances to employees	P 288,621	P 78,725
Deposits and others	1,116,044	1,084,138
Security fund	140,167	140,167
	1,544,832	1,303,030
Allowance for probable losses	(644,648)	(644,648)
	P 900,184	P 658,382

Advances to employees are cash advances made by the employees.

Deposits are made to secure leasing arrangements and utility services.

Security fund was created under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, to be used for payment of claims against insolvent insurance companies. The balances of the fund represent the Company's contribution to the fund. The balance of the fund earns interest at rates determined by the IC annually.

## 17. Reserve for Unearned Premiums

The analysis of this account is as follows:

	2022			2021		
	Direct business	Ceded	Net	Direct business	Ceded	Net
Balances, January 1	P 65,561,519	P 1,550,719	P 64,010,800	P 71,709,765	P 1,431,193	P 70,278,572
Policies written during the year	145,685,800	6,773,254	138,912,546	158,163,097	5,169,155	152,993,942
Premiums earned during the year	(152,592,027)	(6,466,130)	(146,125,897)	(164,311,343)	(5,049,629)	(159,261,714)
	P 58,655,292	P 1,857,843	P 56,797,449	P 65,561,519	P 1,550,719	P 64,010,800

In accordance with IC circular 2016-67, Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR) and Unexpired Risk Reserve (URR). UPR is calculated using the 24<sup>th</sup> method for all classes of business, on a gross of reinsurance basis. URR is calculated as the best estimate of future obligation, expenses for policy management and claims settlement cost. URR may be estimated as the unearned premium for each class of business multiplied by ultimate loss ratio and adjusted for future expenses.

The actuarial valuation result for premium liabilities as of December 31, 2022 and 2021 is as follows:

	Gross	
	2022	2021
UPR	P 58,655,292	P 65,561,519
URR		
Best estimate of future obligation	17,046,717	19,182,594
Maintenance expenses	14,199,362	16,002,700
Claims handling expense	829,353	940,277
Margin for adverse deviation	9,364,504	10,548,072
	41,439,936	46,673,643
Premium Liability (whichever is higher)	P 58,655,292	P 65,561,519

	Net	
	2022	2021
UPR	P 56,797,449	P 64,010,800
URR		
Best estimate of future obligation	16,587,055	18,805,533
Maintenance expenses	14,199,362	16,002,700
Claims handling expense	829,353	940,277
Margin for adverse deviation	9,293,635	10,487,266
	40,909,405	46,235,776
Premium Liability (whichever is higher)	P 56,797,449	P 64,010,800

## 18. Insurance Claims Payable

Outstanding claims will become payable and materialize into claims paid when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within 3 years.

The provision is sensitive to many factors such as interpretation of circumstances, judicial decisions, economic conditions, climatic changes and is subject to uncertainties such as:

- Uncertain as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- Uncertainty as to the extent of policy coverage and limits applicable; and
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

The analysis of this account is shown below:

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balances, January 1	P 31,840,707	P 684,016	P 31,156,691	P 42,739,576	P 428,221	P 42,311,355
Claims and losses incurred - net of recoveries	59,069,256	(2,610,866)	61,680,122	70,961,404	255,795	70,705,609
Provision for incurred but not reported claims	258,238	2,902,168	(2,643,930)	(10,715,764)	684,016	(11,399,780)
Claims and losses paid - net of recoveries	(72,203,031)	(487,659)	(71,715,372)	(71,144,509)	(684,016)	(70,460,493)
	P 18,965,170	P 487,659	P 18,477,511	P 31,840,707	P 684,016	P 31,156,691

In accordance with IC circular 2016-67, claims liabilities for both direct business, assumed treaty and reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR.

Claims handling expense was computed on a net insurance basis using the Kittle's Refinement to the Classical Paid-to-Paid Ratio Method that explicitly recognized that claims handling expense is incurred as claims are reported, even if no loss payments are made.

Outstanding claims reserve shall be based on actual claims reported but have not yet been settled at year-end. IBNR is calculated based on the following methods:

1. Chain Ladder or Loss-Development Triangles Method
2. Bornhuetter-Ferguson Method
3. Expected Loss Ratio Method

MfAD is included to allow the inherent uncertainty of the best estimate of the policy reserves and to consider the variability of claims experience with a class of business, the diversification between classes of business and conservatism in the best estimate.

The actuarial valuation result for claims liabilities as of December 31, 2022 and 2021 is as follows:

	Gross	
	2022	2021
Outstanding claims reserve	P 10,955,215	P 21,124,941
Claims handling expense	469,918	523,647
IBNR	4,310,852	6,983,654
MfAD	3,229,185	3,208,465
	P 18,965,170	P 31,840,707

		<b>Net of Reinsurance</b>	
		<b>2022</b>	<b>2021</b>
Outstanding claims reserve	P	10,955,215	P 21,124,941
Claims handling expense		469,917	523,647
IBNR		3,920,724	6,436,441
MfAD		3,131,655	3,071,662
	P	18,477,511	P 31,156,691

## 19. Accounts Payable and Accrued Expenses

This account consists of:

		<b>2022</b>	<b>2021</b>
Accrued and other liabilities	P	18,603,492	P 13,122,816
Commissions payable		7,274,372	6,996,245
Taxes payable		5,249,245	6,960,850
Income tax payable		2,132,286	3,613,209
	P	33,259,395	P 30,693,120

The terms and conditions of these accounts are as follows:

- Accrued expenses are liabilities for goods and services with payment terms of 30-90 days.
- Commissions payable are liabilities to brokers and agents for uncollected premiums. The amounts are settled within 12 months.
- Taxes payable consisting of documentary stamp tax, output tax, premium tax and other taxes are usually paid and remitted on the following month.

Management believes that the carrying amounts are the reasonable approximation of their fair values as at December 31, 2022 and 2021.

## 20. Reinsurance Liabilities

The movements of this account are as follows:

<b>As of December 31, 2022</b>				
		<b>Due to reinsurers</b>	<b>Funds held for reinsurers</b>	<b>Total</b>
Balance at the beginning	P	2,847,227	P 2,238,457	P 5,085,684
Additions		1,782,820	-	1,782,820
Reductions		(432,013)	(455,636)	(887,649)
Balance at the end of year	P	4,198,034	P 1,782,821	P 5,980,855

  

<b>As of December 31, 2021</b>				
		<b>Due to reinsurers</b>	<b>Funds held for reinsurers</b>	<b>Total</b>
Balance at the beginning	P	4,281,717	P 2,066,980	P 6,348,697
Additions		627,751	213,058	840,809
Reductions		(2,062,241)	(41,581)	(2,103,822)
Balance at the end of year	P	2,847,227	P 2,238,457	P 5,085,684

## 21. Equity

### *Share Capital*

The Company's capital structure as at December 31, 2022 and 2021 is as follows:

	Shares	Amount
Authorized - P1 par value per share	320,000,000	P 320,000,000
Issued and outstanding	250,000,000	250,000,000

As at December 31, 2022 and 2021, the Company has 15 stockholders owning 100 or more shares each.

## 22. Insurance Contracts – Terms, Assumption and Sensitivities

### *Terms and Conditions*

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR claims) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are reviewed quarterly as part of a regular ongoing process as claims experience develops; certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projections of future claims through the use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

### *Assumptions*

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claims inflation factors, and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions, climatic changes and government legislation affect the estimates. Other key assumptions include variation in interest and delays in settlement.

### *Sensitivities*

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity to certain variables such as legislative change and uncertainty in the estimation process is impossible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at reporting date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

Since certain proportional reinsurance facilities are in place, the Company's net exposure is minimal. The Company considers that the liability recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Sensitivity test are set out below, showing the impact on profit and loss and equity.

% change in loss ratio	Impact on income				Impact on equity			
		2022		2021		2022		2021
+5%	P	2,953,463	P	2,986,143	P	2,067,424	P	2,724,324
-5%		(2,953,463)		(2,986,143)		(2,067,424)		(2,724,324)

## 23. Premiums

Analysis of premiums is as follows:

2022	Direct Business			Total	Net premiums		
		Assumed			Ceded	Retained	
Premiums written	P	138,242,647	P 7,443,153	145,685,800	P 6,773,254	P	138,912,546
Changes in unexpired risk		7,576,741	(363,390)	7,213,351	-		7,213,351
Net	P	145,819,388	P 7,079,763	P 152,899,151	P 6,773,254	P	146,125,897

  

2021	Direct Business			Total	Net premiums		
		Assumed			Ceded	Retained	
Premiums written	P	158,163,097	P 5,169,155	P 163,332,252	P 7,598,066	P	155,734,186
Changes in unexpired risk		7,128,191	(979,944)	6,148,247	(119,526)		6,267,773
Net	P	165,291,288	P 4,189,211	P 169,480,499	P 7,478,540	P	162,001,959

## 24. Interest and Other Investment Income

Other investment income consists of:

	2022	2021
Dividend income (see Note 9)	P 8,399,980	P 16,292,346
Rental income (see Note 12)	3,027,777	4,422,925
Realized gain on sale of available-for-sale investments (see Note 9)	6,510,806	3,300,804
Unrealized gain on fair value of investment property (see Note 12)	51,697,000	-
Gain on foreign exchange	1,083,699	2,070,867
Miscellaneous Income	53,540	1,755
	P 70,772,802	P 26,088,697

Sources of interest income are as follows:

	2022	2021
Cash, cash equivalents (see Note 8)	P 657,559	P 793,435
Other debt instruments		
Available-for-sale debt securities (see Note 9)	880,545	2,396,922
Held-to-maturity debt securities (see Note 9)	33,549,664	39,060,521
	P 35,087,768	P 42,250,878

## 25. Claims, Losses and Adjustment Expenses

Analysis of claims, losses and adjustment expenses paid is as follows:

For the year ended December 31, 2022						
		Direct	Assumed	Total	Recoveries	Net
Claims and losses	P	70,216,348	P 1,466,142	P 71,682,490	P 487,659	P 72,170,148
Loss adjustment expenses		520,541	-	520,541	-	520,541
	P	70,736,889	P 1,466,142	P 72,203,031	P 487,659	P 72,690,690

  

For the year ended December 31, 2021						
		Direct	Assumed	Total	Recoveries	Net
Claims and losses	P	69,992,979	P 693,771	P 70,686,750	P (684,016)	P 70,002,734
Loss adjustment expenses		457,759	-	457,759	-	457,759
	P	70,450,738	P 693,771	P 71,144,509	P (684,016)	P 70,460,493

## 26. Commission Expense and Commission Income

The composition of this account is as follows:

	2022		2021	
	Commission expense	Commission income	Commission expense	Commission income
Direct business	P 32,051,362	P -	P 44,404,170	P -
Reinsurance business	1,762,875	2,102,146	1,048,233	2,798,339
Total	33,814,237	2,102,146	45,452,403	2,798,339
Increase/(Decrease) in DAC/DCI (see Note 14)	1,486,718	(90,245)	549,969	(72,152)
	P 35,300,955	P 2,011,901	P 46,002,372	P 2,726,187

Standard commission rate for direct and reinsurance business ranges from 5% to 37.5%.

## 27. General and Administrative Expenses

General and administrative expenses consist of:

	2022	2021
Salaries and allowances	P 28,486,948	P 29,668,797
Professional fees	4,022,031	2,888,177
Depreciation (See Note 13)	2,812,100	2,608,999
Rental and other occupancy costs	2,318,761	2,042,873
Repairs and maintenance	2,199,128	1,365,009
Other employee benefits	1,972,171	2,008,330
Association and pool dues	1,770,965	2,089,974
Transportation	1,714,494	1,520,239
Taxes and licenses	1,092,629	1,355,323
Advertising	960,273	614,343
Supplies	818,837	975,769
Communication and postage	809,933	838,546
Representation and entertainment	272,770	273,682
Professional development	21,925	22,347
Provision for probable losses	-	879,196
Miscellaneous expense	1,515,767	1,879,985
	P 50,788,732	P 51,031,589

Miscellaneous expense includes advertising and other marketing related expenses and printing of policy forms.

## 28. Retirement Benefit Cost

The Company maintains a funded retirement plan, which is a defined contribution type, covering all regular employees. The Company periodically contributes to the plan at 5% of employees' monthly salary. After rendering a service of at least 10 years, the amount payable to the retiring employee is his/her contribution, net of administrative fees and expenses plus all income thereto. The plan is administered by a bank-trustee. At regular intervals, an actuarial valuation is made to determine if the retirement benefits due to the employee is not below the framework of Republic Act 7641, otherwise known as "Retirement Pay Law".

Contribution to the plan amounted to nil in 2022 and P2,120,313 in 2021.

As at December 31, 2022 and 2021, the distribution of the plan is as follows:

	2022	2021
Equity securities	1%	14%
Debt securities	82%	71%
Cash and cash equivalents	15%	14%
Loans and receivables	2%	1%
	<b>100%</b>	<b>100%</b>

## 29. Income Taxes

The major components of provision for income tax expense (benefit) for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Current		
Regular	<b>P 3,275,168</b>	P 4,524,366
Final	<b>7,052,864</b>	6,809,380
Deferred	<b>8,529,101</b>	(7,195,347)
	<b>P 18,857,133</b>	P 4,138,399

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense is as follows:

	2022	2021
Statutory income tax	<b>P 27,209,856</b>	P 19,077,726
Adjustment due to change in tax rate	-	(330,670)
Adjustments for:		
Final taxes and income subjected to final tax	<b>(9,386,454)</b>	(15,466,071)
Non-deductible expenses	<b>1,033,731</b>	857,414
Actual provision for income tax	<b>P 18,857,133</b>	P 4,138,399



Significant component of Company's deferred tax assets and liabilities recognized in the financial statements is as follows:

	2022	2021
<b>Deferred tax assets</b>		
Claims and losses incurred but not reported	P 980,181	P 1,745,913
Allowance for impairment of financial assets	-	280,000
Allowance for impairment of receivables	219,799	385,411
	<b>1,199,980</b>	<b>2,411,324</b>
<b>Deferred tax liabilities</b>		
Unrealized foreign exchange gain	270,925	517,716
Unrealized gain on fair value change of investment property	16,155,571	1,247,346
Revaluation surplus on:		
Land	62,733,580	22,746,686
Building	29,155,500	-
	<b>108,315,576</b>	<b>24,511,748</b>
<b>Net Deferred tax liabilities</b>	<b>P 107,115,596</b>	<b>P 22,100,424</b>

#### *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*

On February 1, 2021, the Bicameral Conference Committee, approved the House Bill No. 4157 and Senate Bill No.1357 (the CREATE) which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based. CREATE pursues to dynamically fight the effects of COVID-19 and help businesses to recover as quickly as possible.

Among the reforms provided under CREATE Act are the following:

- i. Reduction in current income tax rate effective July 1, 2020 as follows:
  - Those with assets amounting to P100 million and below, and with taxable income equivalent to P5 million and below will be subjected to a 20% tax rate.
  - Those with assets above P100 million or those with taxable income amounting to more than P5 million will be subjected to a 25% tax rate.
- ii. Effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one percent (1%)

### **30. Other Significant Matters**

#### *Contingencies*

In the normal course of business, the Company may become defendant in lawsuits involving settlement of insurance claims. The Company recognized adequate provisions in its books to cover possible losses that may be incurred on these claims. In the opinion of management, liabilities arising from these claims, if any, will not have material effect on the Company's financial position and will have no material impact in the financial statements, taken as a whole.

*Operating leases*

Company as lessor

Portion of the company's provincial branches are leased out to third parties. Future minimum rentals receivable under the operating leases as at December 31, 2022 and 2021 are as follows:

	2022	2021
Within one year	P 3,143,681	P 6,220,499
More than one year but less than five years	20,570,121	18,673,831
	<b>P 23,713,802</b>	<b>P 24,894,330</b>

Company as a lessee

The company enters into a rent agreement for the lease of certain provincial branches. Lease contract covers a period of 1 year, renewable at the option of both parties. Rent expense charged to operations amounted to P342,835 in 2022 and P248,464 in 2021.

*Related party transactions*

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

Related party transaction consists of compensation to key management personnel as follows:

	2022	2021
Compensation and benefits	P 4,985,583	P 5,910,500
Retirement benefits	264,000	240,000
	<b>P 5,249,583</b>	<b>P 6,150,500</b>

*Current and non-current distinction*

The Company's current assets and current liabilities are presented below:

	2022	2021
<b>Current assets</b>		
Cash and cash equivalents	P 59,419,304	P 125,514,935
Short-term investments	56,555,587	45,246,746
FVPL	13,726,422	16,134,770
HTM	140,506,000	175,043,206
Insurance and reinsurance assets	9,378,545	11,494,593
Accrued investment income	4,329,327	4,561,542
Deferred acquisition costs	13,576,853	15,063,571
	<b>P 297,492,038</b>	<b>P 393,059,363</b>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	P 33,259,395	P 30,693,120
Reinsurance liabilities	5,980,855	5,085,684
Insurance claims payable	18,965,170	31,840,707
Reserve for unearned premiums	58,655,292	65,561,519
Deferred commission income	591,068	500,823
	<b>P 117,451,780</b>	<b>P 133,681,853</b>

### 31. Supplementary Information required under Revenue Regulations 15-2010

The Bureau of Internal Revenue (BIR) issued Revenue Regulations 15-2010 which requires additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2022 is presented in compliance thereto.

- The details of VAT output tax declared in the Company's 2022 VAT returns and their related accounts are as follows:

	Amount subject to VAT	Output tax
Premiums	P 138,912,546	P 16,669,506
Commission	2,011,901	241,428
Rental income	3,027,777	363,333
	P 143,952,224	P 17,274,267

- The VAT input tax claimed is broken down as follows:

Balance at the beginning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		996,880
Services		2,379,590
Applied against output tax		(3,376,470)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P36,844.
- The documentary stamp tax paid/accrued for insurance policies is P16,153,146.
- The amounts of withholding tax payments, by category are as follows:

Tax on compensation and benefits	P	1,443,796
Expanded withholding tax		3,327,813

- As at December 31, 2022 the Company has no pending tax cases within and outside the administration of the BIR.
- The details of taxes and licenses presented under administrative expenses in the Company's statements of income are as follows:

Real property tax	P	667,930
Supervision/Filing Fees (IC)		252,700
E-Titles		67,637
Company Cars Renewal fees		38,590
Fees - BIR Quarterly Report/Registrations		34,000
Licencing fees		20,200
SEC Registration fees		11,572
	P	1,092,629